



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/018

Audit of air travel activities and related practices at UNOG

**Overall results relating to air travel activities
and related practices at UNOG were initially
assessed as partially satisfactory.
Implementation of four important
recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

19 March 2013

Assignment No. AE2012/311/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. OBJECTIVE AND SCOPE	2-3
III. AUDIT RESULTS	3-9
A. Needs assessment	4
B. Regulatory framework	4-8
C. Coordinated management	8-9
IV. ACKNOWLEDGEMENT	9
 ANNEX I	 Status of audit recommendations
APPENDIX 1	Management response

AUDIT REPORT

Audit of air travel activities and related practices at UNOG

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of air travel activities and related practices at the United Nations Office at Geneva (UNOG) as part of a comprehensive audit of air travel activities and related practices across multiple duty stations.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.

3. UNOG let the initial contract with the current Travel Management Services (TMS) contractor on 1 January 2009, with an end date of 31 December 2011. In August 2011, the contract was extended until 31 December 2013. As shown in Table 1 below, the gross ticketed amount and travel agency costs have both increased each year of the contract. The contract was procured jointly by the International Organizations of Geneva (IOG) to secure economies of scale, synergies and a stronger negotiating position. Although the IOGs procured the services jointly, they each signed their own individual contracts with the TMS contractor. UN Procurement Manual version 5 (UNPM) was in force at the time the services were initially contracted and was the relevant authority providing guidance on the requirements for the process. Version 6 of the Manual was in force at the time the extension was granted. References to UNPM in this report relate to the version of the manual that was in force at the time the action being discussed was taken.

Table 1: Gross ticketed amount and the travel agency cost for UNOG for 2009-2011

Year	Gross Ticketed Amount	Travel Agency Cost
	US\$	US\$
2009	18,973,841	1,485,662
2010	21,315,455	1,702,879
2011	23,488,031	2,103,822
Total	63,777,327	5,292,363

Source: Purchase and Transportation Section, UNOG

4. Within UNOG, the Procurement and Contracts Unit (PCU) led the contracting process and the Transportation, Visa and Travel Unit (TVTU) acted as the requisitioner. TVTU worked closely with PCU during the procurement and has primary responsibility for managing the contract and the relationship with the TMS contractor. Both units are part of the Purchase and Transportation Section of UNOG Central Support Services (CSS). UNOG Financial Resources Management Service (FRMS) is responsible for making payments to the TMS contractor and for some of the controls related to the management of the contract with the TMS contractor.

5. Under the contract, UNOG provides travel management services to nine other organizations. These are: United Nations Economic Commission for Europe, Office of the High Commissioner for Human Rights, Office for the Coordination of Humanitarian Affairs, United Nations Conference on Trade and Development, United Nations Environment Programme, United Nations Institute for Disarmament

Research, United Nations Institute for Training and Research, United Nations Research Institute for Social Development, Office of Internal Oversight Services and United Nations High Commissioner for Refugees.

6. Comments provided by UNOG are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the UNOG governance, risk management and control processes in providing reasonable assurance regarding the **efficient and effective acquisition of air travel management services** and the **effective management and administration of the travel management services contract**.

8. The audit was included in the 2012 internal audit work plan for UNOG as part of a comprehensive audit of air travel across multiple duty stations, following a request made by the General Assembly in resolution 65/268 for OIOS to undertake a comprehensive audit of all air travel activities and related practices.

9. The key controls tested for the audit were: (a) needs assessment; (b) regulatory framework; and (c) coordinated management. The business objective of efficient and effective acquisition of air travel management services was assessed against all three key controls. The business objective of effective management and administration of the travel management services contract was assessed only against the regulatory framework key control. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Needs assessment** - controls that provide reasonable assurance that there is a proper assessment of needs to determine the requirements for air travel management services under a contract.

(b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the acquisition of air travel management services, and the management and administration of the contract; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

(c) **Coordinated management** - controls that provide reasonable assurance that adequate arrangements are in place for coordinated management to ensure efficient and effective delivery of air travel management services to achieve synergy and to avoid potential overlaps.

10. The key controls were assessed for the control objectives shown in Table 2.

11. OIOS conducted this audit from May to September 2012. In relation to the acquisition of air travel management services, the audit covered the period from October 2007, when the procurement process for the current contract began, until the contract was signed in December 2008. The audit examined the market research and procurement planning that was undertaken, the development of the joint Request for Proposal (RFP), the evaluation of the bids, and the establishment of the contract and its amendments. In relation to the management of the contract, the audit covered the period from the beginning of the contract in January 2009 until August 2012. The audit also examined UNOG's management of the performance of the TMS contractor, compliance with the travel policy, cost controls, the verification and processing of payments, and the coordinated management of the contract.

12. OIOS performed an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

13. The UNOG governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **efficient and effective acquisition of air travel management services** and the **effective management and administration of the travel management services contract**. OIOS made five recommendations in the report to address issues identified in the audit. OIOS subsequently closed recommendation 1 as UNOG had fully determined the commercial evaluation criteria for the next contract for TMS in advance of the commercial evaluation.

14. UNOG worked closely with the other IOGs in the needs assessment, procurement, negotiations and award of the contract for the travel management services. Requirements definition, technical assessment and the introduction of three contract amendments were all in accordance with the UNPM, as were the needs assessment and requisition drafting processes. In addition, although there was no formal source selection plan (SSP), all the elements of an SSP required by the UNPM were given due consideration by the IOGs. OIOS also noted that TVTU and PCU worked together through the procurement and contract finalization process. However, controls in relation to the contracting process were assessed as partially satisfactory because the commercial evaluation methodology was not determined before the opening of the bid. There was also no documentation of legal advice received during the drafting and negotiation of the contract, even though changes were made to the United Nations General Conditions of Contract, an action which would have required legal review by the Office of Legal Affairs.

15. UNOG effectively managed the cost risks associated with the contract by implementing advanced purchase policy and other cost controls. TVTU effectively processed and monitored travel request, booking and charging activities, but the required performance reports, for use in ongoing monitoring of contractor performance, were not submitted to PCU annually. The absence of effective SLAs made it difficult to require the contractor to remedy poor performance during the early stages of the contract.

16. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

Table 2: Assessment of key controls

Business objective(s)	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficient and effective acquisition of air travel management services	(a) Needs assessment	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Partially satisfactory	Satisfactory	Partially satisfactory	Partially satisfactory
	(c) Coordinated	Partially	Satisfactory	Partially	Partially

	management	satisfactory		satisfactory	satisfactory
Effective management and administration of the travel management services contract	(b) Regulatory framework	Partially satisfactory	Satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Needs assessment

Market research was in compliance with UNPM

17. PCU conducted and documented comprehensive Internet and magazine research to identify travel companies capable of providing the required services and distributed the request for Expression of Interest through a range of advertising outlets. The marketing of the opportunity to express interest in the contract was successful in attracting an appropriate level of interest and was in compliance with UNPM.

No formal source selection plan was in place but all requirements of such a plan were addressed

18. A formal SSP was not prepared for the letting of this contract but a review of meeting minutes and other documents provided evidence that UNOG and the other IOGs considered all the elements listed in the UNPM for inclusion in an SSP. OIOS found no evidence to suggest that the lack of an SSP document undermined the achievement of an efficient and effective acquisition of air travel management services. UNOG CSS agreed to use the SSP in future procurement and therefore no recommendation is raised.

Drafting of requisition was in compliance with UNPM

19. The UNPM set out the requirements for the definition of requirements and specifications for the procurement and required that these specifications are drafted by the requisitioner, are generic in order to achieve maximum competition, are sufficiently clear and detailed, and inform potential contractors of the nature of the UN requirements. The Terms of Reference (ToR) for the TMS contract were drafted by the requisitioners of the IOGs as required and were generic. Four bids were received, all in accordance with the ToR and all addressing the UN requirements expressed in the ToR.

B. Regulatory framework

(i) Acquisition of air travel management services

Commercial evaluation methodology was not determined before opening of bids

20. The commercial evaluation criteria, scoring and weighting were agreed in advance by the IOGs. However, the evaluation criteria did not specify, as required by the UNPM, the methodology used to calculate total costs based on the bidders' responses, which were provided on a fee per ticket basis. An initial commercial evaluation report used assumptions to model costs of the technically successful bidders over one year for all four pricing models the bidders had provided costs for. However, the final assessment of price was conducted on a different basis taking into account a different time period and a

different number of pricing models as well as some additional assumptions. Although in this instance both methods resulted in the same outcome of the bidding process, any change in the evaluation methodology after the start of the bidding process should be avoided as it can undermine fair competition.

(1) UNOG should determine the methodology and assumptions to be used to calculate evaluation criteria scores before bids are opened and should follow these methods and assumptions in evaluating bids to ensure compliance with the United Nations Procurement Manual.

UNOG accepted recommendation 1 and stated that in the current ongoing Request for Proposal for travel management, the evaluation criteria scores had been clearly determined prior to commercial evaluation. OIOS reviewed the commercial evaluation methodology and assumptions provided by UNOG for the procurement of the next contract for travel management services and concluded that the methodology had been determined in full, prior to the opening of commercial proposals. Based on the action taken by UNOG, recommendation 1 has been closed.

Technical evaluation was in compliance with UNPM

21. The UNPM set out the requirements for the establishment and membership of the Evaluation Committee and their responsibilities and provided that the Committee may be split into a Technical Evaluation Team and Commercial Evaluation Team. These teams were established for the procurement of the TMS contract and each team included representatives from all the participating IOGs and both requisitioners and procurement officers. The Technical Evaluation team was comprised of 12 individuals including two from UNOG, and included travel specialists as well as procurement officers. The technical evaluation criteria, minimum standards, scoring and weighting were agreed in advance, separately from the commercial criteria. The Committee's technical report evaluated the bids against the pre-defined technical evaluation criteria. The commercial proposals were not opened until the completion of the technical evaluation, which complied with the UNPM. Only two companies, including the previous TMS contractor, achieved the minimum technical score and therefore only these two bids were evaluated commercially.

Contract amendments were made in accordance with UNPM

22. The contract between UNOG and the TMS contractor had been amended three times. Amendment 1 in January 2011 was to introduce a reduced price for one class of TMS contractor fees in response to supplier sub-performance. The second amendment in August 2011 relocated the Booking and Ticketing Centre from the World Health Organisation to UNOG and involved no additional cost. Amendment 3, also in August 2011, exercised UNOG's option to extend the contract for an additional two years through to 31 December 2012. A comprehensive performance report was prepared by TVTU and submitted to PCU in advance of this extension. OIOS concluded that all contract amendments were made in a timely manner and with appropriate justifications, in accordance with UNPM.

(ii) Management and administration of the contract

Service Level Agreements in the contract were not an effective tool for monitoring vendor performance

23. TVTU participated with the other IOGs in drafting the Service Level Agreements (SLAs) in the TMS contract, which were to be used to monitor vendor performance. TVTU indicated that each IOG had its own preferences for what should be included, which resulted in the creation of an unmanageable number (95) of SLAs. The contract also did not specify the frequency or methods with which SLAs would be reported on. Only one of the 95 SLAs was regularly reported on by the TMS contractor to

UNOG. Instead, TVTU had developed a separate customer satisfaction survey methodology with the TMS contractor with specific questions that it regularly monitored outside the contractual SLAs. Also, TVTU had agreed with the TMS contractor a one-off external audit of the prices the TMS contractor was securing for a sample of bookings. This performance measure was also not required by the contract. For SLAs to be an effective tool in monitoring the performance of a vendor, they must be clearly defined in the contract and the contract should also specify the methodology used to assess performance against them and when measurements are to be taken and reported.

(2) UNOG should make the Service Level Agreements for the next contract for travel management services more specific and fewer in numbers, and contractually agree the frequency and means of measuring and reporting on them.

UNOG accepted recommendation 2 and stated that the Request for Proposal and related Statement of Works for future travel management and visa processing services included a limited list of specific Key Performance Indicators (KPIs) with related targets. The KPIs would constitute the basis for the contractual performance monitoring. The KPIs as well as means/frequency of measuring them would be included in the new contractual agreement expected to be established by 31 December 2013. Recommendation 2 remains open pending receipt of a copy of the next contract for travel management services containing the new KPIs.

Performance reports were not prepared in compliance with UNPM

24. TVTU had completed the Performance Report for the TMS contractor only once between 2009 and the time of the audit, namely in 2011, whilst according to UNPM the performance reports should be prepared annually for contracts of the value and duration of UNOG's TMS contract. The lack of timely and comprehensive formal performance evaluations submitted to PCU in accordance with the requirements of the UNPM could have undermined UNOG's overall ability to observe and correct unsatisfactory service provided by the contractor. The required performance reports also had to be included in the vendor registration case file, in order to provide an information base for future dealings with the vendor.

(3) UNOG should prepare vendor performance reports for its travel management services provider on an annual basis, as required by the United Nations Procurement Manual.

UNOG accepted recommendation 3 and agreed to prepare formal performance reports on an annual basis. It also stated that within the framework of the current contractual agreement all essential components of the vendor performance, such as client satisfaction and telephone and e-mail response time, are monitored on a regular basis by TVTU. Also, in 2011, a formal and comprehensive performance report was prepared and transmitted to PCU. Recommendation 3 remains open pending development of an action plan to ensure that vendor performance reports are prepared on an annual basis and a copy of the 2012 performance report for the TMS contractor.

Lack of specific remedies in contract to address ongoing performance issues

25. The only contractual mechanisms available to UNOG to motivate the TMS contractor to provide the specified levels of service were non-renewal of the contract, termination of the contract, and a requirement for the TMS contractor to absorb any additional costs resulting from them booking tickets that did not comply with the travel policy. The absence of specific remedies for addressing ongoing performance issues meant that although UNOG was dissatisfied with the TMS contractor's performance during the first 14 months of the contract it had limited mechanisms available to penalize the TMS contractor in the short term.

26. UNOG wrote a formal letter to the TMS contractor on 4 March 2010 reminding them of the contractual clauses related to non-compliance and highlighting the areas of their performance that UNOG was unhappy with. UNOG then worked closely alongside the TMS contractor to improve performance and secure a contract amendment installing a temporary price reduction in one category of fares. However, had SLAs with financial penalties been included in the contract, the TMS contractor would have been more highly motivated to improve its performance in specific areas and would have taken steps to improve performance more quickly.

(4) UNOG should include in the next contract for travel management services the remedies, which foresee penalties for non-achievement of the identified Key Performance Indicators.

UNOG accepted recommendation 4 and stated that the Statement of Works for the future travel management and visa processing services included penalty clauses for failure to meet the SLA Key Performance Indicators. The penalty clauses would also be included in the final contractual agreement expected to be established by 31 December 2013. Recommendation 4 remains open pending receipt of a copy of the next contract for travel management services containing the financial penalties associated with non-compliance with the KPIs.

Travel request booking and charging process was working as intended

27. Each travel request was “pre-audited” by TVTU. In the pre-audits TVTU calculated the cheapest fare available for the travel request in line with the travel policy of the United Nations. Any taxes and the TMS contractor fees were added to this value and, if necessary, were converted into Swiss Francs and entered into the travel request form on the Integrated Management Information System (IMIS). This figure was known as the ‘obligation amount’ and represented the maximum value that FRMS was authorized to pay the TMS contractor for that travel request. The obligation amount was sent to the TMS contractor by TVTU along with all the other details of the travel request by paper for processing. Once the TMS contractor had booked the tickets it sent itemized paper invoices to FRMS as well as electronic copies in Excel.

28. Due to the manual nature of the process for inputting the data into IMIS, there was an inherent risk of transposition errors. OIOS confirmed that travel requests had been booked and charged correctly. FRMS had effective reconciliation-based controls in place to minimize the risk of keying errors being undetected and reviewed that values had been entered into IMIS correctly for invoices, credit notes and refunds.

Controls related to UNOG’s advanced purchase policy were in place

29. UNOG had implemented the instruction contained in the interoffice memorandum from the Under-Secretary-General for Management, dated 4 April 2011, that all heads of departments and offices that travel officers at all duty stations should not approve any travel requests and related air ticket issuances less than two weeks prior to departure unless appropriate justification is provided by the relevant Director. UNOG required travel requests to be completed and certified in IMIS 16 days before travel. This allowed TVTU and the TMS contractor two days to process the travel request and then still issue tickets 14 days or more prior to departure. Any travel requests that were submitted less than 16 days prior to departure were rejected unless the travel request named the Director approving the exception. TVTU also submitted statistical reports on the advanced air ticket purchases to the clients that UNOG was providing travel services for.

Travel requests were processed in compliance with travel policy

30. TVTU had procedures in place to check the cheapest available fare in compliance with the travel policy and to calculate the obligation amount that was entered into IMIS. These controls were operating as intended. All travel requests were processed within 24 hours of receipt.

TVTU effectively used a range of initiatives to control total travel cost

31. UNOG effectively managed the cost risks associated with the contract by implementing the following cost controls:

- Self Booking Tool (SBT) pilot project: TVTU was working closely with the TMS contractor to develop an online tool that would enable travelers to book their own tickets in compliance with the travel policy and for a lower travel agency fee. TVTU estimated that this tool could generate savings in fees of approximately CHF 200,000 annually.
- Controls related to commission: TVTU was regularly tracking total amounts of commission from airlines returned to UNOG by the TMS contractor. Unlike overrides, commission was paid by airlines to travel agents per ticket and appeared as an itemized line item on invoices received by UNOG.
- Refunds paid by the TMS contractor to UNOG for unused tickets: controls were in place in both TVTU and FRMS to ensure that refunds due were received as expected and that outstanding refunds were checked.
- Negotiations with airlines: UNOG worked effectively with the other IOGs to secure competitive discounts from airlines without having to commit to any volume of booked flights with any particular airline.
- Cost management within TVTU: low cost airlines were used, where possible, to control costs without forcing passengers to fly on less convenient itineraries.

Customer satisfaction was closely monitored

32. The contract required that the TMS contractor should have the capability to perform electronic customer satisfaction surveys. A review of customer satisfaction reports found that TVTU regularly monitored the performance of the TMS contractor, identified issues raised by customers and worked with the TMS contractor to resolve them. Customer satisfaction scores were initially low but increased steadily throughout the contract and at the time of the audit were higher than the scores under the previous TMS contractor.

C. Coordinated management

Failure to put on record evidence of legal review

33. Annex A of the TMS contract contained the United Nations General Conditions of Contract (UNGCC) without any amendments. However, article 22 of the main contract set out four amendments to the UNGCC. These changes covered intellectual property, proprietary rights, the notice period of termination for cause, and the work to be completed by the TMS contractor following termination. Despite making these changes to the UNGCC, PCU did not involve the Office of Legal Affairs (OLA) in negotiations or send the contract to them for review or inputs, as was required by UNPM to ensure that the interests of the Organization are adequately protected. PCU stated that it sought legal advice and input from the then Senior Legal Adviser, UNOG before making these changes to the UNGCC. PCU further stated that, in its view, OLA should only be consulted if the Senior Legal Adviser, UNOG feels it is required. However, there was no formal record of the advice given by the Senior Legal Adviser or e-

mail trail on file. The UNOG Legal Office was also not able to identify any related documentation. PCU indicated that the procurement officer at the time had several informal meetings with the UNOG Legal Office and asked them to review printed copies making amendments by pen. PCU further explained that changes to the UNGCC were only made after the UNOG Legal Office confirmed they would not be adverse to the interests of UNOG. OIOS reviewed files with copies of different iterations of the contract printed and marked up by pen. It is possible that one or more of these copies were subject to review by the UNOG Legal Team but this could not be determined conclusively.

(5) UNOG should consult the Senior Legal Adviser, UNOG and, as appropriate, the Office of Legal Affairs on any changes made to the United Nations General Conditions of Contract in the next contract for travel management services, in compliance with the United Nations Procurement Manual, and put on record the legal advice obtained.

UNOG accepted recommendation 5 and agreed that the Purchase and Transportation Section would contact OLA after consulting the Senior Legal Adviser, UNOG. In UNOG's opinion, routine changes to the UNGCC could be cleared with the Senior Legal Adviser and do not need to go to OLA for advice. Legal advice received would be clearly highlighted and put on record. The above would be applied to the next contract for travel management services. Recommendation 5 remains open pending documentary evidence of the legal review undertaken on the next contract for travel management services.

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the Management and staff of UNOG for the assistance and cooperation extended to the auditors during this assignment.



David Kanja, Assistant Secretary-General
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of air travel activities and related practices at UNOG

Recom. no.	Recommendation	Critical ¹ /important ²	C/O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNOG should determine the methodology and assumptions to be used to calculate evaluation criteria scores before bids are opened and should follow these methods and assumptions in evaluating bids to ensure compliance with the United Nations Procurement Manual.	Important	C	Action completed	Implemented
2	UNOG should make the Service Level Agreements for the next contract for travel management services more specific and fewer in numbers, and contractually agree the frequency and means of measuring and reporting on them.	Important	O	Submission to OIOS of a copy of the next contract for travel management services containing the new KPIs.	31/12/2013
3	UNOG should prepare vendor performance reports for its travel management services provider on an annual basis, as required by the United Nations Procurement Manual.	Important	O	Submission to OIOS of an action plan to ensure that vendor performance reports are prepared on an annual basis and a copy of the 2012 performance report for the TMS contractor.	31/03/2013
4	UNOG should include in the next contract for travel management services the remedies, which foresee penalties for non-achievement of the identified Key	Important	O	Submission to OIOS of a copy of the next contract for travel management services containing the financial penalties associated with non-compliance with the	31/12/2013

1 Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

2 Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

3 C = closed, O = open

4 Date provided by UNOG in response to recommendations.

Recom. no.	Recommendation	Critical¹/ important²	C/ O³	Actions needed to close recommendation	Implementation date⁴
5	<p>Performance Indicators.</p> <p>UNOG should consult the Senior Legal Adviser, UNOG and, as appropriate, the Office of Legal Affairs on any changes made to the United Nations General Conditions of Contract in the next contract for travel management services, in compliance with the United Nations Procurement Manual, and put on record the legal advice obtained</p>	Important	O	<p>KPIs.</p> <p>Submission to OIOS of documentary evidence of the legal review undertaken on the next contract for travel management services.</p>	31/12/2013